

DIAMOND VENTURES, LLC**1800 Peachtree Street N.W.****Suite 310****ATLANTA, GEORGIA 30309****(404) 603-5300 VOICE****(404) 603-5303 FAX****April 23, 2001**

Jeff Berg, Acting Director
CDFI
U.S. Department Of Treasury
601 13th Street, NW
Suite 200 South
Washington, DC 20005

Mr. Berg:

Our firm has recently reviewed the New Markets Guidance published by Treasury on the above date. It was intended to offer guidance on the procedures for applying for New Markets Tax Credits. We have made an initial review of the same and will be seeking an opinion from our tax counsel on related matters.

Our firm recently completed and submitted to SBA an application for New Markets Venture Capital. Being one of the first in the nation to do so, we anxiously awaited the guidance from Treasury as for it directly impacts the spirit of the legislation; raising private equity with federal government incentives.

In reading the legislation, having a brief conversation with Mr. Sean Zirlenbach, and examining the capital fundraising environment, it appears that low-income areas, inner-city areas, and targeted groups intended to be served by this legislation will be placed at a significant disadvantage as compared to other firms in the same arena.

That is, the recent economic market adjustments and the failures of many firms in the Internet sector make fund raising difficult. With government incentives available, the road is a little clearer. However, with no immediate guidance on that application process, a New Market firm will not be able to credibly raise or give comfort to a private, institutional, or accredited investor that the tax incentives will occur this year.

Thus, a firm could be designated by SBA as a New Markets firm, seek (as many are seeking) to raise capital to fulfill the SBA's \$5 million capitalization requirement, and still not be able to comply with the SBA regulatory capital portion because investors will not have any guidance or assurance that the investment into a New Markets entity will qualify for tax credits.

Jeff Berg, Page Two

Along with other comments in this document, we implore you and the managers of the CDFI to reconcile the application process, documentation requirements, timing, and other matters with SBA so that a firm in the USA can credibly put together a venture that serves underserved markets.

The following comments are based on the actual guidance, and reflect our direct interpretation of them as a New Markets Venture capital firm actively courting partners for its venture fund.

1. The application timetable far to separate and provides little assurance that a NMVC firm can offer investors comfort that it will be certified to receive an allocation of tax credits. Given SBA's goal of signing Conditional Participation Certificates in June for NMVC companies, their needs to be a more solid process for certifying firms for tax credits so that BOTH sides of the legislation are completed and the legislations objectives can begin to be realized in 2001.
2. All of the requirements set forth in your guidance are a part of the SBA's NMVC Application-Parts 1 and 2. We have completed the application and it yielded over 450 pages of data. It appears that a NMVC firm should automatically qualify for the allocation. The exhaustive application required by SBA should be a provisional exception for companies seeking tax credit certificates since the legislation is written for them also.
3. In Part III, there should be an exception for NMVC firms to submit an application for CDE certification. The application to SBA inherently requires the same information by Treasury, and little if any additional information can be created that will be advantageous to Treasury for that review. In short, NMVC's should immediately qualify since the SBA application was built largely from the SBIC program. Theoretically, the NMVC may possibly be viewed as a SSBIC since its purposes are "special" to the community.
4. Applicants need to receive confirmation that they have passed Phase I review based on scores to be assigned each part of the application. Also, the scoring system should be made public so that applicants may be aware of the effect of a NMVC application on the scores.
5. With regard to the priority given to applicants with a demonstrated track record, those applicants should provide some of the following:
 - Summaries of deals processed, jobs created (if any), economic impact of activities (dollars committed), experience in same or similar programs generally established as having an impact on the community (e.g. HUD

Jeff Berg, Page Three

CDBG activities, EDA programs), certifications as a development company manager or economic development professional, teaching or entrepreneurship experience in low-income areas, knowledge of the inner-city areas it serves and more.

6. Awards should go first to areas that are most impacted by the spirit of their legislation. Priority should most be given to area that has no history of developmental capital. Thereafter, firms that have less of a track record should be given consideration later than firms in areas, which have the least impact and need for low-income areas.
7. Specific factors should include records of loans and investments by the principals of the fund, types of small businesses (special groups), relationships to the municipal governments comprehensive development plans, census tracts to be served, empowerment zone impact, and overall strategy to invest in and make flexible debt commitments to the undeserved groups.
8. Collectively, the number one system for priority should be the actual track records of the applicant in lending and investing to firms in the market region. Other factors will have material weight, but no precedence can be given to a firm that just hasn't ever done this type of special purpose lending and investing.
9. An applicant should not be limited to a certain allocation a year other than what can reasonably be deployed by their investment program and philosophy over a 3-5 year period. Geographic diversity, regional diversity, special groups and targeted business diversity should balance this also.
10. Due diligence should be done to verify the management teams representations of their track record. That should be in the form of third party letters, references, etc. A strategic alliance with SBA, or a comment letter from SBA on their due diligence should be sufficient for NMVC firms.
11. The criteria for technical assistance has to be in the form of who was served and what did they obtain as verification of service. No reasonable firm or person can say that technical assistance led to a firm going to market to get an IPO, or resulted in an increase in sales, or prevented a loss of dollars in the accounting system. Essentially, these judgments will be to onerous for SBA or Treasury. The reputation and character of the applicant should bear witness to their track record. Hard evidence should back-up the due-diligence taken.
12. The benchmarks for evaluating effectiveness will have to go hand in hand with investment in and management of the portfolio companies. As with all venture

Jeff Berg, Page Four

13. funds, there will be losses. In this case, their needs to be a portfolio review by NMVC firms submitted and reviewed by SBA. Their audit and examination report will reveal deficiencies in the companies investing strategy and relatedly the success of the investment philosophy.

Mr. Berg, there are many concerns in the Community Development Venture Capital industry. This is uniquely a very special investing strategy with inherit needs that are very unlike the private sector. We would err on the side of SBA, with its track record with SBIC's providing a key support to Treasury in the evaluation of applicants through the NMVC program that meet the concerns mentioned here.

Overall, there has to be a concerted agreement to support investing in the inner-city by seasoned professionals who will make a difference in America.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'C. Earl Peek', with a long, sweeping horizontal line extending to the right.

C. Earl Peek
Managing Partner

cc: SBA
CDVCA